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IN THE

Supreme Court of the United States

OCTOBER TERM, 1993

VALUTRON, N.V., ARISTA, N.V., S. PRESTLEY BLAKE, LLOYDS BANK INTERNATIONAL (BAHAMAS), LTD., as Trustee for BONNYBROOK CHARITABLE TRUST, CLIFF RESOURCES CORPORATION, FEDERATION OF AMERICAN SCIENTISTS FUND, BERNARD FISHER, CASEY FISHER, DAVID L. HILL, LOUIS MARX, JR., RODMAN G. PRICE, NOEL FUND, INC., SIERRA VENTURES, LAURA ROGAL OLAH, as administratrix for the estate of EDWARD ROGAL, and S. FRED SINGER,

Petitioners,

v.

NCR CORPORATION,

Respondent.

Petition for Writ of Certiorari to the United States Court of Appeals for the Federal Circuit.

PETITION FOR WRIT OF CERTIORARI

RONALD L. ENGEL
(Counsel of Record)
KARL R. FINK
DRESSLER, GOLDSMITH, SHORE & MILNAMOW, LTD.
Two Prudential Plaza, Suite 4700
180 North Stetson Avenue
Chicago, Illinois 60601
(312) 616-5400
Attorneys for Petitioners

Midwest Law Printing Co., Chicago 60611, (312) 321-0220

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QUESTIONS PRESENTED

(1) When the patent rights of an independent inventor are pitted against a large corporate infringer, with the prospect of expensive litigation for enforcement of the patent rights, can the patent owner be deemed to be sleeping on his rights and thus guilty of laches because of delay in bringing suit for the interval required by diligent effort to obtain the funding needed for patent enforcement?

(2) Whether ignoring the "bursting bubble" theory of a presumption violates Federal Rules of Evidence Rule 301 and denies due process of law by improperly shifting the burden of proof on the issue of laches?

LIST OF PARTIES AND RULE 29.1 STATEMENT

The parties to the proceeding are the parties shown in the caption of this Petition and the following parties who have been added as plaintiffs since the filing of the First Amended Complaint on August 27, 1982: Jayne Cohen; Nancy Cohen; Stephen M. L. Cohen; John M. Grumbacher and Jerome Medalie, Trustees of the Ann M. Cohen 1991 Irrevocable Trust; Cornelius Fisher Living Trust; Anne R. Helman; William L. Bennett, Donald T. Pascal and Samuel F. Pryor, IV as Trustees U/A DTD 12/28/90; Andrew G. Rogal; Anne Rogal; Anne P. Rogal; Carol Rogal; Keith C. Rogal, Ellyn W. Rogal and Allan Goodman, Trustees of the Rogal Valutron Trust; Keith H. Rogal; Richard O. Schultz; Bruce A. Rogal; Keith C. Rogal; Laura Rogal Olah; Jeffrey M. Drazan; and Patent Enforcement Fund, Inc. The following are parent companies, subsidiaries

and/or affiliates (except wholly owned subsidiaries) of certain corporate petitioners: Patent Enforcement Fund, Inc. is a subsidiary of Valutron N.V.; and Belding Heminway Co., Inc., Lincoln Snacks Co., Inc., Curtis Industries, Inc., Lincoln Foods, Inc., Simmons Outdoor Corp., and TDX Corp. are affiliates of Noel Group, Inc. (formerly Noel Fund, Inc.). Cliff Resources Corp. has changed its name to The Prospect Group, Inc.

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No.

In The
SUPREME COURT OF THE UNITED STATES
October Term, 1993

VALUTRON, N.V., ARISTA, N.V., S. PRESTLEY BLAKE, LLOYDS BANK INTERNATIONAL (BAHAMAS), LTD., as Trustee for BONNYBROOK CHARITABLE TRUST, CLIFF RESOURCES CORPORATION, FEDERATION OF AMERICAN SCIENTISTS FUND, BERNARD FISHER, CASEY FISHER, DAVID L. HILL, LOUIS MARX, JR., RODMAN G. PRICE, NOEL FUND, INC., SIERRA VENTURES, LAURA ROGAL OLAH, as administratrix for the estate of EDWARD ROGAL, and S. FRED SINGER,

Petitioners,

v.

NCR CORPORATION,

Respondent.

PETITION FOR WRIT OF CERTIORARI

Petitioners (hereinafter "Valutron") respectfully pray that a writ of certiorari issue to review the judgment of the United States Court of Appeals for the Federal Circuit, entered in its Case No. 83-1014, 83-1015 on

August 13, 1993, with rehearing denied on October 4, 1993.

OPINIONS BELOW

The *per curiam* affirming judgment by the Court of Appeals for the Federal Circuit, dated August 13, 1993, is reported at 5 F.3d 1056 and is reprinted in the Appendix at A 1.

The Order of the Court of Appeals for the Federal Circuit denying rehearing, dated October 4, 1993, is unreported and is reprinted in the Appendix at A 3.

The opinion, findings of fact, conclusions of law and judgment order of the United States District Court for the Southern District of Ohio (Rice, J.), dated August 18, 1992, are unreported and are reprinted in the Appendix at A 6.

JURISDICTION

The judgment of the Court of Appeals for the Federal Circuit was entered on August 13, 1993, with

rehearing denied on October 4, 1993. This Court has jurisdiction under 28 U.S.C. § 1254(1).

CONSTITUTIONAL PROVISIONS AND RULE INVOLVED

U.S. CONST. art. I, § 8, cl. 8

> The Congress shall have Power . . . To promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries . . . .

U.S. CONST. amend. V

> No person shall . . . be deprived of life, liberty, or property, without due process of law . . . .

Federal Rules of Evidence Rule 301

> In all civil actions and proceedings not otherwise provided for by Act of Congress or by these rules, a presumption imposes on the party against whom it is directed the burden of going forward with evidence to

> rebut or meet the presumption, but does not shift to such party the burden of proof in the sense of the risk of nonpersuasion, which remains throughout the trial upon the party on whom it was originally cast.

STATEMENT OF THE CASE

Valutron is the owner of U.S. Patent No. 3,121,159, entitled "CENTRAL OFFICE MASSIVE MEMORY RECORDING SYSTEM," which issued February 11, 1964 to inventor Edward Rogal (the "Rogal Patent").[1] The Rogal Patent is a basic pioneer patent covering a system for electronically compiling data from various points of sale contemporaneously with the input of data at each point-of-sale (a "point-of-sale system"). This kind of point-of-sale system has revolutionized the

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[1] Valutron was established to license and enforce the Rogal patent. The other petitioners each own an interest in the Rogal Patent. By agreement, Valutron and its President, Dr. David Hill, have assumed the lead role in this patent infringement action.

retailing industry and is widely used in various forms today by many electronic sales recording systems.

Prior to his death, inventor Edward Rogal attempted to exploit a point-of-sale system based on his patent with his friend and business associate, Dr. David Hill. However, Mr. Rogal died on April 29, 1974 before realization of that goal.

Several large companies began development of point-of-sale systems beginning in the early 1970's. Mr. Rogal and Dr. Hill initially became aware of the sale of such systems by Pitney-Bowes and by Singer around 1972-3. After Mr. Rogal's death in 1974, Dr. Hill began arrangements for the benefit of Mr. Rogal's estate to obtain funding to evaluate the Rogal Patent and its enforceability. In March, 1975, Dr. Hill (acting through corporate predecessors to Valutron, N.V.) acquired a partial ownership interest in the Rogal Patent from the estate of Mr. Rogal and assumed responsibility for enforcement of the patent.

In an effort to exploit the Rogal Patent for the benefit of Mr. Rogal's estate and of the investors who would provide the capital needed to make such exploitation possible, Dr. Hill studied the industry and the patent situation and became aware for the first time of the sale of point-of-sale systems by IBM and by NCR[2] in late 1974 and early 1975. As a result, in June, 1975, Dr. Hill contacted the patent law firm of Kenyon & Kenyon for an initial evaluation of the validity of the Rogal Patent and its possible infringement.

Dr. Hill was directed by the Kenyon & Kenyon firm to engage in an in-depth prior art study to determine the validity of the Rogal Patent and to determine whether infringement of the Rogal Patent was occurring. In order to conserve expenses, Dr. Hill personally and extensively

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[2] Discovery in this case showed that the NCR engineer who subsequently developed the infringing system was aware of the Rogal Patent as early as 1970. This fact was not revealed to Dr. Hill until well after the commencement of this litigation in 1981.

examined the patent literature in the search room files of the United States Patent and Trademark Office during a six-week period in the summer of 1975.

After studying the patent situation and concluding that the Rogal Patent appeared to be valid, Dr. Hill received further advice from Kenyon & Kenyon in the fall of 1975 as to additional investigations needed to pursue enforcement of the Rogal Patent. Over the course of the following year, Dr. Hill consulted with the patent law firm of Pennie & Edmonds to determine whether and how to proceed with enforcement of the Rogal Patent. In November, 1976, Pennie & Edmonds issued its opinion confirming that the Rogal Patent was valid and infringed at least by Singer and by NCR. However, the opinion letter specifically cautioned that enforcement of the patent would be "expensive" and stated:

> You must be prepared to meet expenses of not less than $250,000, and possibly twice that amount, to carry a suit against one defendant to

> final judgment in the trial court. The additional expense involved if either you or the defendant take an appeal cannot be estimated at this time.

Encouraged by the favorable opinions received, Dr. Hill decided to continue to pursue enforcement of the Rogal Patent. However, Dr. Hill lacked the financial resources to do so and thus expanded his efforts to raise the requisite funds by soliciting additional investors.

By the end of 1976, Dr. Hill had obtained only $65,000 in total from investors. Additional efforts to obtain investments resulted in the raising of $70,000 in 1977 and of $45,000 in 1978.

Thus, by the end of 1977, Dr. Hill had obtained only approximately $135,000[3] in funding, which he felt (and had been counselled) was only a small fraction of what would ultimately be needed for enforcement activity

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[3] This is of course a gross number. The actual monies in hand were depleted by the necessity of on-going expenses, such as legal fees for the opinions obtained.

even as against one defendant. Nonetheless, in April, 1978, Dr. Hill sent a letter to NCR wherein he charged infringement and offered a license under the Rogal Patent. Later in 1978, Dr. Hill sent similar letters to IBM and to Singer.[4]

NCR did not respond to Dr. Hill's initial letter. Dr. Hill again wrote to NCR on May 12, 1978, requesting a response. NCR responded to Dr. Hill on May 31, 1978, stating that it had ordered the prosecution history of the Rogal Patent from the Patent Office, and promising that it would advise Dr. Hill of the results of its findings.[5]

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[4] Dr. Hill ultimately abandoned his pursuit of Singer (which went out of the point-of-sale business in 1976) as not being economically worthwhile.

[5] As previously noted, NCR had actually been aware of the Rogal Patent since at least 1970 (see note 2, p. 6, *supra*) but never acknowledged that fact until its revelation in discovery in this case. Thus, in 1978, regardless of the actual knowledge it already had of the Rogal patent, NCR manifested to Dr. Hill an objective position as if it was then first commencing a good faith evaluation of the patent situation. In fact, discovery showed that NCR did virtually nothing regarding the Rogal Patent for almost two years thereafter.

NCR, despite having superior knowledge of its own product and having superior resources to study the question of infringement, requested that Dr. Hill specify which NCR system or systems was deemed to infringe and provide an element by element reading of the relevant claims of the Rogal Patent on such system or systems.

Dr. Hill responded to NCR's request on January 22, 1979, when he informed NCR that he believed the NCR 280/725 system infringed the Rogal Patent. Having received no follow-up response, despite NCR's extant promise to advise Dr. Hill of its position, Dr. Hill wrote to NCR again on February 22, 1980, providing an element by element reading of Claim 1 of the Rogal Patent on NCR's 280/725 system. On June 23, 1980, NCR wrote to Dr. Hill expressing conclusory doubts as to the validity of the Rogal Patent and declining to take a license. The Rogal Patent expired on February 11, 1981, and suit was brought on August 24, 1981.

While NCR was leading Dr. Hill along in his attempt to license the Rogal Patent to NCR, Dr. Hill was simultaneously engaging in license discussions with IBM and others. After extensive negotiations, IBM ultimately declined to accept a license but agreed to enter into an agreement to toll the statute of limitations.

While attempting to license the Rogal Patent, Dr. Hill diligently continued his efforts to obtain funding for enforcement of the Rogal Patent, should such enforcement prove necessary by the inability to secure licensing resolutions of the extant infringements. By the end of 1978, Dr. Hill had obtained a total of $180,000; by the end of 1979, he had obtained $225,000; and by the end of 1980, he had obtained $345,000. In January, 1981, he charged infringement and offered a license to numerous other companies, including TRW and Burroughs.

Like IBM, TRW and Burroughs entered into tolling agreements, effectively setting their controversies aside pending outcome of this litigation.

This suit was brought against NCR in August, 1981 in the United States District Court for the Southern District of Ohio pursuant to 28 U.S.C. § 1338(a). It went through extensive discovery before it was tried without a jury in piecemeal fashion. After the first three trial days in November, 1984, the trial was recessed for the Court's convenience and was not resumed until April, 1986. The case was taken under advisement after final argument in November, 1986. Nearly six years later, in August, 1992, the District Court ruled in favor of NCR on the sole ground that enforcement of the Rogal Patent was barred by laches, and based solely upon a presumption of laches due to more than six years' delay in bringing suit.[6]

In the District Court's opinion, no delay whatsoever was allowed for the time necessary to obtain

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[6] In the interim, that District Court was advised that, in January, 1992, the Patent and Trademark Office had reconfirmed the validity of the Rogal Patent after a request for reexamination (initiated by Valutron and by IBM) based on the very record established before the District Court.

the means for funding litigation of the claim. The District Court invoked the general rule that "lack of funds will not excuse delay in bringing suit" (A 32-33), despite the fact that substantial on-going efforts to raise those funds took place over several years from 1974 until 1978 and thereafter. Had delay been excused in the 1974-1978 interval as a reasonable time to raise the requisite funds for litigation, the period of delay for the laches determination would have been less than six years, and the presumption of laches could not have been invoked. NCR relied solely on the presumption and offered no substantive proof of laches. Without the presumption, the District Court judgment must be reversed.

On appeal to the Court of Appeals for the Federal Circuit, the District Court decision was affirmed *per curiam* and without comment. (A 1). The Court of Appeals denied rehearing. This Petition followed.

REASONS FOR GRANTING THE WRIT

The Court of Appeals for the Federal Circuit has exclusive appellate jurisdiction in patent cases.[7] Thus, but for this Court, the Court of Appeals is the final authority on substantive issues of patent law and related procedural issues. The Court of Appeals for the Federal Circuit was established for the express purpose of achieving consistency in our national patent laws. *Christianson v. Colt Industries*, 486 U.S. 800, 813 (1988). That salutary objective has been achieved over the past decade, and this Court has had only infrequent occasion for oversight supervision. *See Cardinal Chemical Co. v. Morton International, Inc.*, 113 S. Ct. 1967 (1993); *Eli Lilly & Co. v. Medtronic, Inc.*, 496 U.S. 661 (1990); *Dennison Mfg. Co. v. Panduit Corp.*, 475 U.S. 809 (1986). However, when the Court of Appeals is wrong (as it is here, in its perfunctory approval of an outmoded legal doctrine and of

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[7] 28 U.S.C. § 1295(a)(1).

a ruling that denies due process), only this Court can see that justice is done.

Valutron respectfully seeks reversal of the District Court's judgment barring all relief for patent infringement on the ground of laches. The bar is premised upon a nineteenth century Supreme Court ruling that effectively precludes delay in bringing litigation due to the patent owner's lack of funds. In today's world, this rule in substance abrogates the right of financially weak patent owners to bring suit for patent infringement against financially strong infringers. Such patent owners invariably need time to obtain the financial means to fund such complex and expensive litigation. As a result, an equitable rule, laches, has been perverted to a grossly inequitable result that is inconsistent with the Constitutional purpose of the patent laws, i.e., to promote the progress of science and useful arts. U.S. CONST. art. I, § 8, cl. 8.

Moreover, the District Court ignored the "bursting bubble" theory of presumptions in application of Federal Rule of Evidence 301 and improperly imposed upon Valutron the burden of proof to rebut "the presumption of material prejudice to NCR" regarding the defense of laches. (A 43). This approach denied due process of law to enforcement of the Rogal Patent. Only this Court can rectify the inequity.

I. Delays Necessary for Funding Litigation Must Be Excusable

In biblical lore, David was able to prevail against Goliath with a mere slingshot. Today, in the arena of enforcement of patent rights, a great deal more is required for a David to take on a Goliath. The present day median cost of patent litigation through trial is $518,000.[8] This is a tremendous and often insurmountable burden for an independent inventor facing infringement of a patent by a corporate giant.

Such inventors typically lack the resources needed to do battle with major corporations who appropriate their inventions, often with the explicit expectation that the wheels of justice will grind too slowly and too expensively for the infringement to be brought to account. Yet the typically impecunious independent inventor is the

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[8] *Report of Economic Survey 1993*, prepared by Committee on Economics of Legal Practice, American Intellectual Property Law Association, which also lists $333,000 and $977,000 price tags for the 25th and 75th percentiles of patent litigation costs through trial.

very lifeblood of the patent system. It has long been known that many seminal inventions arise from the efforts of such inventors. *See, e.g., Panel on Invention and Innovation Report*, issued in 1967 by the U.S. Department of Commerce, which lists *inter alia* mercury dry cell batteries, air conditioning, automobile power steering, FM circuitry, electrostatic photocopiers, penicillin and streptomycin antibiotics, the zipper, catalytic cracking of petroleum, the helicopter, the jet engine and cellophane as the products of independent inventors and small organizations in the twentieth century. Such inventions create new products and new industries and usually stand in stark contrast to the incremental improvements on existing products that are typical of corporate inventions.

The invention of the Rogal Patent in this case is a classic example of an independently derived invention by an individual that creates and underlies a vast new industry - - computerized point-of-sale systems that operate in real time. These systems have revolutionized

retail merchandizing. The Rogal Patent was the first teaching of a basic technology utilized on a daily basis by most Americans, as in the purchase of gasoline from an electronic pump or the purchase of groceries in a modern supermarket. Likewise, the Rogal Patent also represents the stereotypical situation of an initial lack of financial resources to protect a highly meritorious and widely misappropriated invention[9].

The incentives of the patent system are Constitutionally provided to motivate innovation. The inventor who is foreclosed from enforcement of his patent rights presents a serious impairment to the Constitutional purpose. Such foreclosure has arisen in this case because of current adherence to an ancient and outmoded doctrine that has been the law enunciated by this Court for over a century, namely, "that a [patentee's] poverty or pecuniary

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[9] In addition to the infringement by NCR, Valutron has confronted IBM, TRW and Burroughs with charges of infringement, all of which have been tolled by agreement, pending the outcome of this litigation.

embarrassment [is] not a sufficient excuse for postponing the assertion of his rights." *Leggett v. Standard Oil Co.*, 149 U.S. 287, 294 (1893).[10]

The realities of an industrial America approaching the twenty-first century demand a reversal of knee-jerk adherence to this principle. The very essence of laches is stated in the equitable maxim that: "Courts of equity, it has often been said, will not assist one who has slept upon

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[10] In the lower courts, this principle has been honored as a general proposition governing the doctrine of laches in patent infringement litigation. *See Naxon Telesign Corp. v. Bunker Ramo Corp.*, 686 F.2d 1258, 1261 (7th Cir. 1982); *Baker Mfg. Co. v. Whitewater Mfg. Co.*, 430 F.2d 1008, 1010 (7th Cir. 1970), *cert. denied*, 401 U.S. 956 (1971), *quoting Whitman v. Walt Disney Production*, 148 F.Supp. 37 (S.D. Cal. 1957); *Gillons v. Shell Co. of California*, 86 F.2d 600, 606 (9th Cir. 1936), *cert. denied*, 302 U.S. 689 (1937); *MGA, Inc. v. Centri-Spray Corp.*, 639 F.Supp. 1238, 1242 (E.D. Mich. 1986); *In re Yarn Processing Patent Validity Litigation*, 602 F.Supp. 159, 171-72 (W.D.N.C. 1984); *Technitrol, Inc. v. Memorex Corp.*, 376 F.Supp. 828, 832-33 (N.D. Ill. 1974), *aff'd* 513 F.2d 1130 (7th Cir. 1975); *Collision Surgical Engineering Co. v. Murray-Baumgartner Surgical Instrument Co.*, 230 F.Supp. 572, 580-81 (D. Md. 1964), *aff'd* 343 F.2d 162 (4th Cir. 1965); *Whitman v. Walt Disney Productions*, 148 F.Supp. 37, 40 (S.D. Cal. 1957), *aff'd* 263 F.2d 229 (9th Cir. 1958).

his rights, and shows no excuse for his laches in asserting them." *Lane & Bodley Co. v. Locke,* 150 U.S. 193, 201 (1893). Acceptable excuses that have been recognized over the years are licensing or litigation efforts by the patent owner. *See A.C. Aukerman Co. v. R.L. Chaides Const. Co.,* 960 F.2d 1020, 1033 (Fed. Cir. 1992).

The reasons are quite evident. One who seeks to enforce patent rights by licensing or by litigation cannot fairly be said to be sleeping on his rights. The same is true of one who actively seeks funding in order to be able either to license or to litigate. That is precisely the case for the Rogal Patent. Despite substantial active and ultimately successful efforts to raise the funds required to enforce the Rogal Patent, the District Court invoked the general rule that "lack of funds will not excuse delay in bringing suit" and allowed for no delay while Valutron was obtaining the funding needed to proceed further. (A 32-33).

In the present day highly expensive arena of patent litigation, an impecunious claimant must be permitted some delay to obtain funding for courtroom battle. Otherwise, as a practical matter, the courtroom door is closed, and the theft of valuable patent rights can proceed without redress. This Court has held that the due process clause of the Fifth Amendment of the U.S. Constitution prevents maintenance of rules that discriminate against the impecunious so as to close the courtroom doors to them. *Griffin v. Illinois*, 351 U.S. 12, 19 (1955). While *Griffin* was a criminal case, due process is required in civil cases as well where the deprivation of property, including the rights under a patent, is at stake. U.S. CONST. amend. V.

Valutron urges a modern and realistic reappraisal of the equitable doctrine of laches as applied to the extremely expensive area of patent infringement litigation. While mere lack of funds may not be a sufficient excuse to delay litigation, surely one who actively seeks to remedy that situation by raising the necessary funds

should not be penalized. The very fact that such activity is undertaken establishes that a patent owner actively engaged in fund raising is not sleeping on his rights. Instead, he is actively engaged in the very process needed to ensure fulfillment of the Constitutional objective of the patent laws, namely:

> adding the fuel of economic incentive to the fire of genius in order to attract and protect the capital that sustains and nurtures innovation.

That capital will shun the impecunious inventor if the inventor's incentives under the patent system are stultified by a rule of law allowing no leeway for the raising of funds needed to enforce the patent. Moreover, if the impecunious inventor is not allowed the time to raise the necessary capital so that he may enforce his patent rights and so retain a reasonable fraction of the wealth created by his invention, the nation will become the poorer through choking down the flow of seminal inventions

from what may be our most productive source -- the independent and often impecunious inventor.

II. Excusing The Minimal Time Required For Funding Restores the Case to its Merits

The District Court found that "mid-1973, after sales of the NCR 280/725 had begun, is the point when Valutron knew or with reasonable diligence should have known of possible infringement by NCR."[11] Since this

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[11] This date is far too early for commencement of the laches period since Valutron had no basis to know of NCR's infringement until January, 1975, when it first obtained NCR's manuals. In fact, according to the record herein, the first NCR 280/725 system that actually infringed did not come onto the market until late 1974 or early 1975, which is approximately eighteen months **after** the District Court set the laches clock ticking. It is of course manifestly absurd to charge one with knowledge of possible infringement a year and a half before the infringement actually began.

Moreover, despite its "mid-1973" holding, the District Court itself characterized the later January, 1975 date as "not an unreasonable estimation of the beginning of the laches period." (A 22). Nonetheless, this Petition assumes *arguendo* the worst case scenario, adopted by the District Court, of commencing the laches period in "mid-1973", which results in the commencement of litigation

resulted in about eight years delay prior to actual suit in August, 1981, an evidentiary presumption of laches was invoked against Valutron in accordance with the six year presumptive rule established in *Aukerman*, 960 F.2d at 1028. The District Court relied exclusively on the presumption in barring Valutron's claims. Clearly, if two years or more of the delay could be legitimately excused due to the necessity to raise funds, the delay period would be less than six years, and the presumption could not have been invoked. Since NCR relied **solely** on the presumption to sustain its defense of laches, an excuse of two years or more for the delay interval would wipe out the laches ruling and leave the parties with their fully tried, but never decided, positions on the merits.

Valutron commenced its fund raising activities in 1974. By 1976, only $65,000 had been raised; additional investments of $70,000 in 1977 and of $45,000 in 1978

"approximately eight years after the laches period began to run." (A 27).

were received. (A 14). Thus, by April, 1978, Valutron had only a small fraction of the $500,000 it had estimated was required to litigate against even one major defendant.[12] The relevance of the April, 1978 date is that was when Valutron communicated a notice of infringement to NCR. By so doing, Valutron exposed itself to the onset of litigation via a declaratory judgment action and thus arguably believed that it had sufficient funds for litigation.[13]

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[12] This estimate presciently anticipated the above-noted $518,000 median amount required for patent litigation. (note 8, p. 17, *supra*). Notably, Valutron was faced with multiple infringers in a highly complex subject matter, clearly at the "high" end of expense, a factor confirmed by the fact that Valutron expended about $1,500,000 through the trial of this case against just one defendant, NCR.

[13] Indeed, this is the approach adopted by the District Court to find that "Valutron's claim of pecuniary hardship" was not factually supported since Valutron "began threatening companies with enforcement proceedings in 1978, at which time only $180,000 had been raised." (A 33). This Petition assumes *arguendo* that the $180,000 available in 1978 was a sufficient war chest and thus moots the District Court's factual ruling on the fund raising issue. Whether or not the subsequent

The interval of actual fund raising in this initial phase from 1974 until April, 1978 more than exceeds the two years required to vitiate the presumption. If this interval, or at least a two year portion of it, is deemed reasonable (as it clearly is) to raise just the initial funds minimally required, no basis remains for the presumption which has obliterated Valutron's claim for relief.

III. The Result in This Case To Date Is A Denial of Due Process

In addition to penalizing Valutron by application of an outmoded legal doctrine, the District Court completely misconstrued the effect of a presumption under Federal Rule of Evidence 301 and improperly shifted the burden

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attainment of $500,000 in funding was the proper level, the several years required from 1974 to 1978 to raise even the first $180,000 should have been recognized as inconsistent with the dilatory predicate of a laches defense. Such recognition would have sufficed to obviate the presumption of laches based solely on more than six years delay. Surely, Dr. Hill was not sleeping on his rights when he was actively engaged in raising $180,000 for the express purpose of enforcing the Rogal Patent.

of proof for the defense of laches. In so doing, the District Court effectively ignored controlling law and thus denied due process to enforcement of the Rogal Patent. Inexplicably the Court of Appeals failed to correct or to even address the error.

In its earlier decision in *Aukerman*, 960 F.2d at 1037, the Court of Appeals had explicitly recognized the so-called "bursting bubble" theory of presumptions, namely, that "a presumption is not merely rebuttable but completely vanishes upon the introduction of evidence sufficient to support a finding of the nonexistence of the presumed fact" and correspondingly that "the evidence must be sufficient to put the existence of a presumed fact into genuine dispute" by compelling "the production of [the] minimum quantum of evidence from the party against whom it operates, nothing more."

This Court has reviewed and reversed misapplication of an evidentiary presumption and has explicitly held that the presumption must be extinguished

after introduction of evidence rebutting the presumed fact. *Texas Department of Community Affairs v. Burdine*, 450 U.S. 248 (1981). Thus, in accordance with precedent of this Court, only the quantum of evidence satisfying the burden of production, rather than the burden of persuasion, is required to extinguish the presumption under Rule 301, and it is reversible error to continue improperly to apply a presumption and thereby improperly to shift the burden of persuasion on a dispositive issue. As stated in *St. Mary's Honor Center v. Hicks*, 113 S. Ct. 2742, 2749 (1993), "[T]he fundamental principle of Rule 301 [is] that a presumption does not shift the burden of proof...."

Valutron unquestionably met this minimal burden of production standard to vitiate the presumption of laches in this case in several respects,[14] most notably for present

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[14] Valutron contended that its correspondence with NCR constituted licensing negotiations that in and of itself accounted for a two year exoneration from delay. Proof submitted in this regard was more than sufficient to satisfy that "sufficiency of evidence which, if believed, would preclude a directed finding in favor of the infringer" (*See*

purposes by proving up its fund-raising activities and the need for them.[15] As argued herein, the delay while

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Aukerman, 960 F.2d at 1037-38). Instead of evaluating this evidence by the standard of a directed verdict, the District Court made an ultimate determination adverse to Valutron and thus ignored the fact that the evidence was clearly sufficient to avoid invocation of the presumption in the first place. In the absence of the presumption, no laches could be found because NCR relied **solely** on the presumption to satisfy **its burden** to establish the defense of laches.

The same is true of Valutron's position that NCR had unclean hands because it procrastinated in failing to fulfill its promise to communicate its views regarding the assertion of infringement. That question should not have been evaluated on its ultimate merits unless and until NCR put in **some** proof (which it never did) to explain **its** contribution to the overall delay. *Cf. Aukerman's* pronouncement, 960 F.2d at 1038, that:

> Even if unable to overcome the presumption, a patentee may be able to preclude application of the laches defense with proof that the accused infringer was itself guilty of misdeeds towards the patentee. This flows from the maxim, "He who seeks equity must do equity."

[15] Dr. Hill testified to his belief that at least $500,000 was necessary for him to commence Valutron's

obtaining funding should result in less than a six year period of unexcused delay and thus prevent any invocation of a presumption of laches.

Further, more than ample evidence was provided to satisfy the burden of production of facts to rebut the presumed facts of unreasonable delay and prejudice to NCR, including:

1) the diligent efforts to raise funds for enforcement from 1974 to 1978 and beyond;

2) the exchange of correspondence between Valutron and NCR from 1978 to 1980,

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enforcement program, but he never considered that amount as sufficient for the possibility of litigation against more than one of the infringers. The District Court concluded, absolutely contrary to the record and to the testimony it heard over six years earlier, that "the basis for that belief was never set forth." (A 33). In fact, Dr. Hill testified that his estimate of $500,000 was based on consultations with principal partners at several law firms, as well as with others. The opinion Dr. Hill received from Pennie & Edmonds in November, 1976 corroborated his testimony and more than justified his belief in his estimate since he was explicitly advised that he "must be prepared to meet expenses of not less than $250,000, and possibly twice that amount, to carry a suit against one defendant to final judgment in the trial court."

wherein Valutron was attempting in good faith to license rather than to litigate;

3) the discontinuation of NCR's accused product in 1978; and

4) NCR's actual knowledge of the Rogal Patent as of 1970 when its engineer reviewed the Rogal Patent before developing NCR's infringing system, and NCR's misleading promise in 1978 to evaluate the assertion of infringement when in fact it did virtually nothing on the topic for almost two years thereafter.

The District Court implicitly recognized that Valutron had met the minimal burden of production standard when it ruled that the "arguments against the application of laches were neither frivolous nor made in bad faith." (A 39). Yet the District Court nonetheless erroneously continued to rely upon a presumption after an impermissible weighing of the evidence submitted, rather than merely testing that evidence for sufficiency to satisfy the burden of production necessary to prevent a directed verdict for the defendant.

The District Court paid lip service to but actually ignored the explicit "bursting bubble" directive of *Aukerman*, 960 F.2d at 1038:

> Thus, the presumption of laches may be eliminated by offering evidence to show an excuse for the delay or that the delay was reasonable, even if such evidence may ultimately be rejected as not persuasive. [citations omitted]. Such evidence need only be sufficient to raise a genuine issue respecting the reasonableness of the delay to overcome the presumption.

In addition to ignoring the "bursting bubble" aspect of the presumption of laches, the District Court explicitly (and erroneously) ruled as a matter of law that "Valutron has not rebutted the presumption of material prejudice to NCR occasioned by Valutron's unjustified delay in bringing suit." (A 43). With proper application of the "bursting bubble" approach, Valutron never should have been subjected to rebutting any presumption. All that

should have been required was for Valutron to meet the *Aukerman* standard of that "minimum quantum of evidence" sufficient to overcome a six year delay (which it unquestionably did), in which event the presumption of laches would have been totally negated.

The error in the District Court's approach is best revealed from analysis of the following portion of the Court's opinion:

> In conclusion, the record indisputably shows that, even construing the facts most favorably to Valutron, this action was commenced more than six years after Valutron knew or should have known of possible infringement by NCR, raising a presumption both of unreasonable delay and of material prejudice. *Valutron has failed either to justify its delay or to demonstrate that NCR was not prejudiced by the delay.* Accordingly, this Court finds that, *upon weighing the equities of the parties,* Valutron's claims are barred by the doctrine of laches. (A 37-38; emphasis added).

The District Court should **not** have imposed upon Valutron the burden to justify its delay or to demonstrate

that NCR was not prejudiced by the delay and should **not** have then weighed the equities. Instead, by proper application of the "bursting bubble" theory, the District Court should only have imposed upon Valutron the burden to come forward with that minimum modicum of evidence to present a justiciable issue as to reasonable delay or as to prejudice, without any weighing of the equities, in order to determine whether a presumption of laches would even be involved.

Valutron unquestionably met that standard such that no presumption should have remained in consideration, at which point Valutron would prevail on the laches issue since NCR offered **no** proof of laches and relied solely on the presumption.

Based on this improper failure to apply the "bursting bubble" theory of a presumption, and for reasons which may never be known, the District Court manufactured a dispositive laches result and avoided resolution on the merits despite a full trial on validity and

infringement. The strained acceptance of the laches rationale must be viewed in the context of the inordinate delays occasioned by the District Court itself. After introducing a delay of seventeen months by a recess for its convenience at the onset of the trial, the District Court then took an additional sixty-nine months to render its decision, following the conclusion of the trial and final arguments.

Five and one-quarter years after the conclusion of the trial, the District Court was advised that the validity of all twelve claims of the Rogal Patent had been reaffirmed by the Patent and Trademark Office in a copending reexamination. This reaffirmation was made on the basis of the very record established before the District Court. The District Court nonetheless declined to render a decision regarding either the issues of validity or of infringement. Instead it found in favor of the defendant on the defense of laches and denied Valutron any prospect of recovery, regardless of the merits.

CONCLUSION

The effect of the ruling in this case is clear, not only for the Rogal Patent but for impecunious inventors in general. If an independent inventor lacks the funds necessary for a patent enforcement battle with a corporate giant, then his Constitutionally provided patent rights may be eviscerated by a laches doctrine that is supposed to do equity. In the instant case, all relief has been denied:

> not because of an adverse ruling on infringement;
>
> not because of an adverse ruling on validity (indeed the Rogal Patent has been revalidated by the Patent and Trademark Office on the basis of the very record developed before the District Court); and
>
> not because of an inability to raise the necessary funds for an enforcement action.

Instead, the patent right has been effectively extinguished because the time required to raise the

necessary funds for enforcement against a recalcitrant infringer has been totally ignored.

Unless an independent inventor happens to be independently wealthy, he does not have the effective right under the instant interpretation of laches to defend his intellectual property against infringement by a financially stronger infringer. The case at bar sends the message that, even if the patent owner pursues funding diligently and ultimately obtains the required funding, all recovery may still be denied even in cases (such as this one) when no actual prejudice has been shown to the infringer by the delay on the part of the patent owner in bringing together the necessary funds for enforcing the patent right. A judgment which sends that message requires reversal both as a matter of sound public policy and of simple justice between the parties. The century old rule of law upon which that judgment is premised should be reformulated by this Court to take account of present day realities in patent enforcement.

In order to satisfy the Constitutional purpose underlying the patent system, i.e., to promote the progress of science and useful arts, U.S. CONST. art. I, § 8, cl. 8, patents should be considered on their merits. Yet, as the case at bar eloquently demonstrates, the defense of laches in the field of intellectual property can cause skewing of the judicial process away from its intended function of considering patents on their merits. Such skewing can (and has in this case) lead to a clear and demonstrated denial of due process of law, favoring the mighty over the weak. Though stated in a different context, the words of this Court from *Griffin*, at 351 U.S. 19, ring true in this context as well:

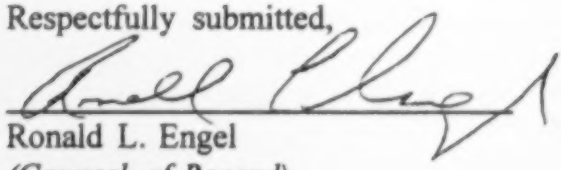
> There can be no equal justice where the kind of trial a man gets depends on the amount of money he has.

In the case at bar, the rights of an independent inventor are pitted against one of the largest corporations in the world. That corporation could afford to and did

wait out the individual. That corporation was willing to and did string the inventor along, knowing that the ticking laches clock could rescue it from a resolution on the merits of its infringement.

This Court should establish as a general principle of law that the time required for a patent owner's necessary, diligent and active funding efforts is a reasonable and excusable period of delay. Moreover, this Court should rectify a clear denial of due process of law in the District Court's misapplication and misinterpretation of an evidentiary presumption under Federal Rule of Evidence 301.

Respectfully submitted,



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Ronald L. Engel
(Counsel of Record)
Karl R. Fink
DRESSLER, GOLDSMITH,
SHORE & MILNAMOW, LTD.
Two Prudential Plaza, Suite 4700
180 North Stetson Avenue
Chicago, Illinois 60601
(312) 616-5400
Attorneys For Petitioners